

## Message Text

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21

ACTION AF-18

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

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USIA-15 SPM-01 NEA-10 IGA-02 /206 W

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FM AMEMBASSY MOGADISCIO

TO SECSTATE WASHDC 1509

INFO AMEMBASSY ADDIS ABABA

AMEMBASSY NAIROBI

AMEMBASSY ROME

C O N F I D E N T I A L MOGADISCIO 1851

E.O. 11652: GDS

TAGS: ECON PFOR SO

SUBJ: SOMALIA'S ECONOMIC PROBLEMS

1. SUMMARY: SOMALIA IS UNDERGOING SEVERE FINANCIAL SQUEEZE. FURTHER ECONOMIC BELT TIGHTENING AND HEIGHTENED COST OF LIVING ALREADY PRODUCING POPULAR DISSATISFACTION. WE ANTICIPATE SOMALIA'S NEW ECONOMIC PROBLEMS WILL INCREASE SOMALI RECEPTIVITY TO FOREIGN PRIVATE INVESTMENT AND GSDR EAGERNESS FOR FOREIGN AID. END SUMMARY.

2. SOMALIA RELIES ON IMPORTS FOR MANY OF ITS STAPLES, INCLUDING SUCH BASIC FOODS AS FLOUR, PASTA, AND SUGAR, CONSTRUCTION MATERIALS SUCH AS CEMENT, AND OIL. DRASTIC INCREASES IN WORLD-SIDE PRICES OF THESE ITEMS OVER PAST YEAR HAVE NOT BEEN MATCHED BY CORRESPONDING INCREASE IN PRICE OF SOMALI EXPORTS (POOR QUALITY LIVESTOCK, BANANAS), THUS LEADING TO A FURTHER DETERIORATION OF ALREADY DISADVANTAGEOUS TERMS OF TRADE. WE UNDER-  
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STAND USSR AND OTHER COMMUNIST SUPPLIERS ARE RAISING PRICES OF

AT LEAST SOME OF GOODS THEY FURNISH UNDER BILATERAL TRADE AGREEMENTS TO MATCH CURRENT WORLD PRICE LEVELS. CONTINUED INEFFICIENCY OF STATE TRADING AGENCY WHICH HAS RESPONSIBILITY FOR EXPORT-IMPORT TRADE HAS COMPOUNDED OVERALL PROBLEM. SIZE OF SOMALI GOVERNMENT SUBSIDIES TO PROTECT CONSUMERS FROM RISES IN PRICE OF CERTAIN STAPLES HAS THEREFORE STEADILY INCREASED, CONSTITUTING IMPORTANT DRAIN ON MEAGER SOMALI GOVERNMENTAL RESOURCES.

3. IT IS DIFFICULT FOR GSDR TO INCREASE REVENUE TO OFFSET THIS BUDGETARY DRAIN. HARSH FACTS OF ENVIRONMENT AND LOW LEVEL OF POPULATION'S TECHNICAL SKILLS PUT SEVERE LIMITS ON INTERNAL ECONOMIC PROGRESS. SOCIALIZATION OF ECONOMY, INCLUDING SQUEEZE ON EFFICIENT AGRICULTURISTS AND ESSENTIAL SMALL TRADESMEN, HAS DEPRESSED ECONOMIC ACTIVITY. CURRENT GOVERNMENT PROCUREMENT PRICES GIVE SMALL FARMERS LITTLE INCENTIVE TO GROW MORE THAN THEIR IMMEDIATE NEEDS. COSTS OF AMBITIOUS SOCIALIST PROGRAMS HAVE BEEN RISING ALONG WITH OTHER PRICES.

4. SOMALIA CONTINUES TO ATTRACT REMARKABLE AMOUNTS OF FOREIGN AID, BUT LOCAL COSTS OF AID-SUPPORTED PROJECTS ARE SIGNIFICANT BURDEN ON SOMALI RESOURCES. SOMALIA OWES CONSIDERABLE SUMS FOR PREVIOUS AID AND FOR PURCHASES OF MILITARY EQUIPMENT.

5. ECONOMICALLY UNSOPHISTICATED SUPREME REVOLUTIONARY COUNCIL HAS HAD TO FOCUS ON DETERIORATION OF ECONOMIC SITUATION AND BLEAK LONG TERM ECONOMIC PROSPECTS IN CONNECTION WITH APPROACHING END OF SOMALI FISCAL YEAR AND FINALIZATION OF 1974-78 FIVE YEAR PLAN. ONE RESULT WAS EARLY DECEMBER SRC DECISION FOR VERY SUBSTANTIAL INCREASE IN PRICES, PARTICULARLY OF IMPORTED STAPLES (FLOUR PRICE DOUBLED, CEMENT UP 50 PERCENT, RICE ONE-THIRD, AND SUGAR NEARLY 20 PERCENT). THERE HAVE ALSO BEEN SUBSTANTIAL REDUCTIONS IN QUANTITIES OF THESE GOODS MADE AVAILABLE TO RETAIL STORES.

6. CERTAIN WAGE INCREASES HAVE BEEN ANNOUNCED, BUT NOT ENOUGH TO AVERT SIGNIFICANT DECREASE IN ALREADY DEPRESSED STANDARD OF LIVING OF PEOPLE IN URBAN MONEY ECONOMY. THIS HAS LED TO CONSIDERABLE POPULAR DISSATISFACTION. PRICE RISE MEASURES HAVE BEEN SUBJECT OF MANY RATHER DEFENSIVE SPEECHES BY TOP LEADERSHIP SINCE THEY WERE INTRODUCED IN EARLY DECEMBER. NECESSITY

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FOR THEM IS BLAMED ON DEVALUATION OF WESTERN CURRENCEIS, MACHINATIONS OF IMPERIALISTS AND MULTI-NATIONAL COMPANIES, AND MORE NEUTRAL FACTORS SUCH AS POPULATION GROWTH AND WORLDWIDE PRICE RISES. THESE EXPLANATIONS HAVE BEEN ACCOMPANIED WITH WARNINGS TO HOARDERS AND PROFITEERS THAT SEVERE PUNISHMENT WILL BE METED OUT TO ANY WHO ATTEMPT TO BENEFIT BY THE COUNTRY'S DIFFICULTIES. TONE AND NATURE OF PROPAGANDA CONFIRM OUR IMPRESSION THAT DECISION TO RAISE LOCAL PRICES WAS DIFFICULT ONE

WHICH WAS NOT REACHED WITHOUT EXTENSIVE DISCUSSION AND DEBATE WITHIN LEADERSHIP GROUP. (AS RECENTLY AS LAST JUNE, SRC AND COUNCIL OF SECRETARIES PROUDLY ANNOUNCED IN JOINT RESOLUTION THAT FOOD PRICES WOULD NOT BE RAISED DESPITE INCREASES IN PRICE OF IMPORTS.)

7. ONE CONSEQUENCE OF THIS ECONOMIC SQUEEZE MAY PROVE TO BE A SOMEWHAT EASIER CLIMATE FOR FOREIGN INVESTMENT AND PRIVATE TRADE. WE HAVE HEARD REPORTS OF SOME EASING OF HARASSMENT OF PRIVATE ENTREPRENEURS OVER PAST FEW MONTHS, AND WE HAVE HAD SOME TENTATIVE INTIMATIONS THAT GOVERNMENT WILL TAKE MEASURES TO CREATE MORE FAVORABLE CLIMATE FOR FOREIGN INVESTMENT. SOMALI EAGERNESS FOR FOREIGN AID MAY INCREASE FURTHER -- WE WERE STRUCK IN THIS CONNECTION BY FRANKNESS OF SRC-MEMBER JELLE'S APPEAL FOR AID DURING HIS RECENT VISIT TO WASHINGTON (STATE 246093 NOTAL). INDEED, ECONOMIC SQUEEZE MAY WELL ENHANCE GSDR ASSESSMENT OF GENERAL IMPORTANCE TO SOMALIA OF WESTERN WORLD AS POTENTIAL SOURCE OF PRIVATE INVESTMENT AND ECONOMIC AID. IT MAY ALSO INCREASE SOMALI EAGERNESS TO PROFIT BY ANY INCREASED ARAB WILLINGNESS TO AID AFRICAN NATIONS.

8. SOMALIA'S ECONOMIC DIFFICULTIES AND GOVERNMENT'S CONCENTRATION ON THEM WOULD APPEAR TO BE IMPORTANT FACTORS WORKING AGAINST SOMALI INITIATION OF HOSTILITIES WITH ETHIOPIANS, THOUGH WE WOULD NOT BE SURPRISED TO SEE SUBSTANTIAL PROPAGANDA EMPHASIS ON THE "EXTERNAL THREAT" AS MEANS OF DIVERTING ATTENTION FROM ECONOMIC SACRIFICES.

9. SOMALIA'S ECONOMIC PROBLEMS WILL MAKE THE FINANCIAL BURDEN OF HOSTING THIS SPRING'S OAU SUMMIT IN MOGADISCIO HARDER TO BEAR, BUT WE THINK GSDR CONSIDERS THIS SUFFICIENTLY IMPORTANT AND PRESTIGIOUS PROJECT TO WARRANT COMMITMENT OF NECESSARY RESOURCES. KIRK  
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## Message Attributes

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